

FRED AGUIAR
Secretary
State and Consumer Services Agency
Chairperson

JOHN CHIANG
State Controller
Board Member

MICHAEL A. RAMOS
San Bernardino County District Attorney
Board Member

JULIE NAUMAN
Executive Officer

Memorandum

Date: June 30, 2009

To: Pat Valencia-Carlson
Deputy Executive Officer
Fiscal Services Division

From: Amy Cheung, Chief
Office of Audits and Investigations

Subject: **Final Report – Review of the Government Claims Program**

This report presents the results of our internal review of the Government Claims Program.

Background

The Government Claims Program (GCP) processes claims for money or damages against the state. This function was vested in 1911 with the State Board of Control, the predecessor to the Victim Compensation and Government Claims Board (VCGCB). In general, anyone who wishes to file a lawsuit against the State or its employees for damages must first pursue an administrative remedy through the GCP claims process.

When the GCP receives a claim, staff determines if it meets criteria for sufficiency, jurisdiction and timeliness. Often, the program works closely with the department against which the claim is filed in an effort to resolve the matter. If a resolution cannot be reached, then staff develops a recommendation based on the case facts and input from the affected department. The three-member VCGCB acts on the recommendation during a public meeting where those involved in the claim are given the opportunity to comment.

Objective, Scope, and Methodology

The objective was to determine whether the GCP is in compliance with applicable laws, regulations, policies, and procedures.

To achieve our objective, we reviewed relevant laws, regulations, policies, and procedures. Additionally, we evaluated the program's internal controls to gain an understanding of the transaction flow and claim process to develop appropriate review procedures.

Our scope consisted of reviewing claims that were filed and processed with the GCP for the period of July 1, 2007 through June 30, 2008. We also interviewed management and staff personnel, and examined the Government Claims Application Tracking System (GCATS) to assess:

- The validity and reliability of data, including data security of the GCATS system;
- The effectiveness of the methods and controls that are in place to provide a consistent process for claims processing;
- If there are sufficient management reports and other data used to support performance and decision making;
- If collection of the 15% Agency surcharges, \$25 filing fees, and \$30 Certification and Declaration fees are collected timely and accurately; and
- If the GCP is effectively and efficiently achieving its stated strategic goal.

We believe we have obtained sufficient, competent evidence to provide a reasonable basis for our findings and recommendations.

Review Results

Our review disclosed some instances of noncompliance with statutory timeframes and internal controls. These instances and recommendations are summarized below.

Finding 1 – Government claim fees are not adequately tracked and are not reconciled with accounting records.

We found a discrepancy of \$930 during our reconciliation of the GCP *Claim Fee Collection* schedule and accounting records for the month of May 2008. We also found that it was difficult for staff to trace checks received to the claims filed. This was a direct result of government claim fees not being tracked and periodically reconciled to the records in accounting. The amount in question represents approximately 8% of the total fees collected. Using the amount in question as an average, the discrepancy in fees received could total \$11,160 per year.

State Administrative Manual (SAM) section 7920 states in part, “each agency is responsible to complete any reconciliation necessary to safeguard the State’s assets and ensure reliable financial data.”

SAM section 8022 states in part, “State agency records will contain information regarding the type of collection (such as cash, check, or money order) received from each payer. This information will be recorded so that it can be readily audited from receipts, reports of collections, (etc.)”

Recommendation

We recommend GCP track its daily checks received by entering the claim number to the mailroom’s check log.

We also recommend GCP perform reconciliations on a regular basis to ensure that government claim fees reconcile with accounting records. Someone who does not have significant involvement with the activity being reconciled should perform this function. Further, we recommend GCP analyze and correct any discrepancies if found during their reconciliations. This procedure should be written as part of the *Procedure/Desktop* manuals.

Management's Response

GCP concurs with the finding and recommendation. Under the current process, all application fee checks submitted with Government Claim application forms are initially received and logged by Business Services/Mailroom personnel and then forwarded to Accounting. GCP staff does not handle these checks.

Whenever a claim is filed in person, GCP staff issue a receipt to the claimant for the funds received, keeping a copy of the receipt in the receipt book. The funds are immediately forwarded to Accounting.

In order to assure that each government claim is associated with either a payment of the application fee or a fee waiver, GCP initiated a review of the check receipting process, with Accounting, Business Services and an ITS business analyst assigned to review and document Fiscal Division processes.

As a result of this review, the following changes have been implemented:

- Business Services/Mailroom staff provides a scanned image of every check received along with the original claim on a daily basis.
- GCP application intake staff attaches each check to its respective claim.
- Accounting receives a log of every check received by Business Services/Mailroom staff with the original checks on a daily basis.

GCP is working with Business Services and Accounting to establish a procedure by which a copy of the daily check receipt log is provided to GCP. GCP intake staff will enter the GCATS-generated claim number on its copy of the daily check receipt log, retain a scanned version of the log for its records, and forward the daily check receipt log with GCATS claim numbers to Accounting. Upon implementation of CalSTARS, Accounting will generate monthly Q25 reports which will detail receipts for the GCP. These reports and logs will be reviewed and reconciled periodically by a GCP analyst not regularly involved in application intake or check receipting. Reconciliations will then be reviewed by the manager.

Finding 2 – *Some claims are not being reviewed within the 20-day period*

For the period of January 1, 2009 through February 18, 2009, there were 107 claims (out of 824) that were not reviewed within the 20 days of data entry. This occurred because claims are not being entered timely into GCATS, resulting in less time for analysts to (1) review the claims for insufficiency (2) to request and receive a recommendation from the affected state agency, and (3) to take action on the claim within the required timeframes. In February 2009, staff took an average of 14 days to enter claim data into GCATS.

Government Code (GC) sections 910.8 states in part, “the board or the person may, at any time within 20 days after the claim is presented, give written notice of its insufficiency, stating with particularity the defects or omissions therein.”

GC section 911 states in part, “Any defense as to the sufficiency of the claim based upon a defect or omission in the claim as presented is waived by failure to give notice of insufficiency with respect to the defect or omission as provided in Section 910.8.”

The duty statement for an office technician states, “All new claim applications are required to be entered into GCATS within one day of receipt.”

Recommendation

We recommend GCP comply with GC section 910.8. We also recommend GCP management track analysts workloads with reports (those currently generated by ITS and saved on the shared drive) and create a procedure to follow up on claims that potentially may not or have not been reviewed timely.

Further, we recommend GCP evaluate its current resources to determine how to address the workload issue and other issues that may be the cause of the inefficiency in claims processing.

Management's Response

GCP concurs with the finding and recommendation. Some claims were not reviewed within the 20-day requirement due to a backlog of the claims application intake process. As of February 2009, application intake occurs the same day of application receipt and no backlog exists.

Compliance with the 20-day review requirement is monitored by the GCP manager on a regular basis through review of the "daily reports" generated by GCATS, which identifies the status of all claims within the analysts' caseload and through the creation, review and posting of quarterly Strategic Plan reports designed specifically to report on compliance with the 20-day and other requirements.

Finding 3 – *Separation of duties is needed for some staff using GCATS*

During our review, we found that some staff accessed GCATS using the roles of a Data Entry and an Analyst. These conflicting roles were intended be separated in an effort to (1) prevent an individual from gaining control over the entire process and (2) to reduce the risk of problems arising from the lack of controls. It appears that some staff performed two incompatible roles so they can address a brief backlog period and to help ensure that claims are processed timely. Allowing staff to enter data and process claims could potentially increase the risk of unauthorized data being entered into the system and illegitimate claims being processed.

SAM section 8080.1 states that each agency must, "establish and maintain an adequate system of internal control within their agencies."

Further, effective internal controls reduce the possibility of significant errors and irregularities and assists in timely detection if they do occur.

Recommendation

We recommend GCP exercise caution when assigning staff to perform duties that ideally should be separated. As such, GCP should consider separating the roles of a Data Entry and an Analyst. We also recommend GCP document and clearly communicate to staff on who will initiate, enter data, process, authorize, review and/or reconcile each activity within the GCP unit.

This finding was reported previously in the Financial Integrity State Manager's Act (FISMA) evaluation conducted for the period July 1, 2005, through June 30, 2007. Both the Information Technology Section (ITS) and GCP were responsible for creating a process to protect the separation of duties control for GCATS. ITS is in the process of creating a procedure to track and document the GCATS roles. They will provide their new procedure to the OAI by June 30, 2009.

Management's Response

GCP concurs with the recommendation that caution is exercised when assigning staff that would, under normal and ideal circumstances, be conducted by different GCATS users within

their assigned roles and duties; however, it is likely that separation of duties may be compromised where it is necessary to assign staff to alleviate potential backlogs and maintain compliance with the 20-day review and 45-day Board action requirements, due to staffing or other resource constraints.

In these instances, the GCP manager will mitigate the risk due to the lack of separation of duties by reviewing ITS generated reports to assure that a staff member who performed data entry on certain claims is not the staff member who subsequently reviews those same claims.

Finding 4 – *Outdated manuals do not provide reasonable assurance that staff are performing their procedures consistently.*

The GCP *Procedure/Desktop* manuals were last updated in 2005. With changes in staffing and new policies and procedures that went undocumented, staff are not performing their duties in accordance with existing manuals or with new procedures that should be in the manuals. Currently, there is no schedule or timeframe set to review and update the manuals on a consistent basis.

SAM section 20050 states in part, “existence of one or more of the following danger signals will usually be indicative of a poorly maintained or vulnerable control system:

“Policy and procedural or operational manuals are either not currently maintained or are nonexistent.”

SAM section 20050 also states in part, “each system an entity maintains to regulate and guide operations should be documented through flowcharts, narratives, desk procedures, and organizational charts.”

Recommendation

We recommend GCP update its *Procedure/Desktop* manuals to reflect current GCP procedures and communicate the changes to staff. This communication should also include that staff need to use the manuals as a reference and training tool. We also recommend GCP set a timeframe to review and assess the manuals for updates on a regular basis.

Management’s Response

GCP concurs with the finding and recommendation that GCP update its *Procedure/Desktop* manuals to reflect current GCP procedures and communicate changes to staff.

Since early 2009, the GCP analyst staff meets weekly with the manager to review the manual and update or revise as needed. Concurrently, support staff and the manager meet bi-weekly to review the manual and update or revise as needed. This effort should be completed by August or September 2009. Examples of revised procedures completed to date are attached.

In addition, in-service training for all GCP staff will be held in July, August and September 2009 on the following:

- GCATS Data Entry Quality Standards
- GCATS Document Processing
- GCATS Intensive Overview – Claims Processing, hearing Coordination & Omnibus Claims Bills

Please note that this report is solely for management information and use. It is not intended to be and should not be used by anyone other than management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

If you have any questions regarding this review, please contact me at (916) 491-3875.

Original Signed By:

Amy Cheung, Chief
Office of Audits and Investigations

AC:jg:2009-AUD-02

Attachment

cc: Julie Nauman
Tom O'Connor
Bettzan Mar
Jackie Tinetti

FRED AGUIAR
Secretary
State and Consumer Services Agency
Chairperson

JOHN CHIANG
State Controller
Board Member

MICHAEL A. RAMOS
San Bernardino County District Attorney
Board Member

JULIE NAUMAN
Executive Officer

Memorandum

Date: June 19, 2009

To: Amy Cheung
Chief Internal Auditor

From: Pat Valencia-Carlson *PVC*
Deputy Executive Officer, Fiscal Services Division

Subject: **Draft Report – Review of Government Claims Program**

The following responses were prepared to address the findings identified by the Office of Audits and Investigations during its internal review of Government Claims Program (GCP) operations from July 1, 2007 through June 30, 2008.

In total, four (4) findings and recommendations were identified. Each finding is repeated below and followed by the GCP response.

Finding 1 - Government claim fees are not adequately tracked and are not reconciled with accounting records.

GCP response: GCP concurs with the finding and recommendation. Under the current process, all application fee checks submitted with Government Claim application forms are initially received and logged by Business Services/ Mailroom personnel and then forwarded to Accounting. GCP staff does not handle these checks.

Whenever a claim is filed in person, GCP staff issue a receipt to the claimant for the funds received, keeping a copy of the receipt in the receipt book. The funds are immediately forwarded to Accounting.

In order to assure that each government claim is associated with either a payment of the application fee or a fee waiver, GCP initiated a review of the check receipting process, with Accounting, Business Services and an ITS business analyst assigned to review and document Fiscal Division processes.

As a result of this review, the following changes have been implemented:

- Business Services/Mailroom staff provides a scanned image of every check received along with the original claim on a daily basis.
- GCP application intake staff attaches each check to its respective claim.
- Accounting receives a log of every check received by Business Services/Mailroom staff with the original checks on a daily basis.

GCP is working with Business Services and Accounting to establish a procedure by which a copy of the daily check receipt log is provided to GCP. GCP intake staff will enter the GCATS-generated claim number on its copy of the daily check receipt log, retain a scanned version of the log for its records, and forward the daily check receipt log with GCATS claim numbers to Accounting. Upon implementation of CalSTARS, Accounting will generate monthly Q25 reports which will detail receipts for the GCP. These reports and logs will be reviewed and reconciled periodically by a GCP analyst not regularly involved in application intake or check receipting. Reconciliations will then be reviewed by the manager.

Finding 2 – Some claims are not being reviewed within the 20-day period.

GCP response: GCP concurs with the finding and recommendation. Some claims were not reviewed within the 20-day requirement due to a backlog of the claims application intake process. As of February 2009, application intake occurs the same day of application receipt and no backlog exists.

Compliance with the 20-day review requirement is monitored by the GCP manager on a regular basis through review of the “daily reports” generated by GCATS, which identifies the status of all claims within the analysts’ caseload and through the creation, review and posting of quarterly Strategic Plan reports designed specifically to report on compliance with the 20-day and other requirements.

Finding 3- Separation of Duties is needed for some staff using GCATS.

GCP response: GCP concurs with the recommendation that caution is exercised when assigning staff that would, under normal and ideal circumstances, be conducted by different GCATS users within their assigned roles and duties; however, it is likely that separation of duties may be compromised where it is necessary to assign staff to alleviate potential backlogs and maintain compliance with the 20-day review and 45-day Board action requirements, due to staffing or other resource constraints.

In these instances, the GCP manager will mitigate the risk due to the lack of separation of duties by reviewing ITS generated reports to assure that a staff member who performed data entry on certain claims is not the staff member who subsequently reviews those same claims.

Finding 4 – Outdated manuals do not provide reasonable assurance that staff are performing their procedures consistently.

GCP response: GCP concurs with the finding and the recommendation that GCP update its *Procedure/Desktop* manuals to reflect current GCP procedures and communicate changes to staff.

Since early 2009, the GCP analyst staff meets weekly with the manager to review the manual and update or revise as needed. Concurrently, support staff and the manager meet bi-weekly to review the manual and update or revise as needed. This effort should be completed by August or September 2009. Examples of revised procedures completed to date are attached.

In addition, in-service training for all GCP staff will be held in July, August and September 2009 on the following:

- GCATS Data Entry Quality Standards
- GCATS Document Processing
- GCATS Intensive Overview - Claims Processing, Hearing Coordination & Omnibus Claims Bills

Thank you for the opportunity to review and respond to the draft report on the review of the GCP. We appreciate the considerate and cooperative approach your staff demonstrated while completing their review. We will continue to work to resolve these findings and report our progress to Audits and the executive team.

Attachment

cc: Julie Nauman
Tom O'Connor
Bettzan Mar
Jackie Tinetti